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States' Film Production Incentives Cause Jitters

By MICHAEL CIEPLY

LOS ANGELES — Already on the hook for billions to bail out Wall Street, taxpayers are also finding themselves stuck with a growing tab for state programs intended to increase local film production.

One of the most shocking bills has come due in Louisiana, where residents are financing a hefty share of [Brad Pitt](#)'s next movie — \$27,117,737, to be exact, which the producers will receive by cashing or selling off valuable tax credits.

As the number of movies made under these plans multiplied in recent years, the state money turned into a welcome rescue plan for Hollywood at a time when private investors were fleeing the movies. But the glamour business has not always been kind to those who pick up the costs, and states are moving to rein in their largess that has allowed producers to be reimbursed for all manner of expenditures, whether the salaries of stars, the rental of studio space or meals for the crew.

Louisiana, one of the most assertive players in the subsidy game, wound up covering that outsize piece of the nearly \$167 million budget of Mr. Pitt's "The Curious Case of Benjamin Button" — the state's biggest movie payout to date — when producers for Paramount Pictures and [Warner Brothers](#) qualified the coming movie, a special-effects drama, under an incentive that has since been tightened. Separately, Louisiana's former film commissioner is set to be sentenced in January to as much as 15 years in federal prison for taking bribes to inflate film budgets (though not that of "Button") and, hence, pay higher subsidies.

Michigan, its own budget sagging, is in the middle of a hot political fight over a generous 40 percent rebate on expenditures to filmmakers that was carried out, with little opposition, only last April. Producers of films for studios like Warner Brothers and the Weinstein Company rushed to cash in, just as homegrown businesses were squeezed by a new business tax and surcharge. Rebellious legislators from both parties are now looking to put a cap on the state's annual film spending, which some have estimated could quickly hit \$200 million a year.

In Rhode Island, meanwhile, the rules have toughened considerably. That happened after The Providence Journal reported in March that producers of a straight-to-DVD picture called "Hard Luck," which starred [Wesley Snipes](#) and [Cybill Shepherd](#), had picked up \$2.65 million in state tax credits on a budget of \$11 million, even though it had reported paying only \$1.9 million of the total to Rhode Islanders.

"With this much money involved, there's going to be a temptation to hype budgets," said Peter Dekom, a veteran entertainment business lawyer who is an adviser to New Mexico's incentive program.

The vogue for state film subsidies appears to have started in Colorado early this decade, with a briefly financed Defense Against Canada law that was devised to win production back from Vancouver and Toronto. Louisiana and New Mexico soon came on board.

By this year, about 40 states were offering significant subsidies, turning the United States into what the Incentives Office, a consulting firm in Santa Monica, Calif., has called the New Bulgaria. It is a reference to what was once the film industry's favorite low-cost production site.

Virtually all of the programs use a state tax system to reimburse producers for money spent on movies or TV shows shot in the state. Some, like Michigan's, simply refund a percentage of expenditures to the producer. Others, like Louisiana's, issue a tax credit that can reduce the taxes a production pays or be sold to someone else. Either way, the state gives up revenue that otherwise would be collected to put money in the producer's pockets.

Advocates, of course, argue that these programs create jobs.

One of the country's most successful programs is in New Mexico, which has backed movies like the Oscar-winning "No Country for Old Men" and next year's "Terminator Salvation," the latest sequel in the action series, with a reported budget of \$200 million.

New Mexico officials boast of having used a 25 percent production cost rebate to build a local film industry that has attracted more than \$600 million in direct spending since 2003, and an estimated \$1.8 billion in total financial impact, as of last June. And in fiscal year 2008, the productions in the state generated 142,577 days of employment, up from 25,293 in 2004.

Elsewhere, however, critics have sharply challenged the notion that state subsidies for the film business can ever buy more than momentary glitter.

"There's no evidence yet that this is a particularly efficient or effective way to create jobs," said Noah Berger, executive director of the Massachusetts Budget and Policy Center.

The nonprofit center reviews budget and tax policies in Massachusetts, which is spending about \$60 million a year on producer credits. A recent study by Mr. Berger's center pointed out that the state's film credit, at 25 percent, is five times higher than that offered to those who build in designated economic opportunity areas, and more than eight times the state's standard investment tax credit.

Until two years ago, Louisiana's program offered a 15 percent credit for virtually the entire budget of a qualified film (and more for Louisiana resident wages), including money that may have been spent out of state. Things were fast and loose enough in Louisiana that Mark Smith, who oversaw the program, pleaded guilty last year to taking \$67,500 in bribes to inflate budgets for a film production company that was not named by the authorities.

Kathy English, a spokeswoman for the United States attorney's office in New Orleans, said the case remained open.

Louisiana's new rules offer a larger credit, but only on spending within the state. That made the incentive less attractive for big-budget movies, like "Button," which was done under old rules, and could recover parts of star salaries and other expenses that left Louisiana. But it has drawn a welter of smaller movies and TV shows, 70 of which have been shot so far in 2008, up from 56 the year before.

"All areas of the state have prospered as a result; everyone sees it," said Sherri McConnell, director of Louisiana's Office of Entertainment Industry Development. (Ms. McConnell said she did not expect to have a detailed picture of economic impact until the completion of a planned study, early next year.)

Others are not so sure. "There's no way you can say this makes money for the public" treasury, said Greg Albrecht, chief economist for Louisiana's legislative fiscal office.

In 2006, the last year for which it has complete figures, the state granted about \$121 million in credits. Mr. Albrecht estimates that only about 18 percent of that is ever recovered in taxes on expanded economic activity.

"It's an expensive way to create jobs," Mr. Albrecht said. But he noted that Louisiana, like New Mexico, can afford it, thanks to rising oil and gasoline revenue. "We're happy as larks right now to do this."

Not so happy are some folks up in Michigan, where a State Senate committee recently moved to cap the state's film rebates at an aggregate of \$50 million a year.

"It's just horrible right now," Mike Bishop, a Republican state senator, said of Michigan's financial condition. Mr. Bishop initially backed the film incentive. But he grew alarmed at outlays that he estimated could quickly exceed \$110 million a year to subsidize movies like "Gran Torino," directed by [Clint Eastwood](#), and "Youth in Revolt," a comedy by the filmmaker [Miguel Arteta](#).

Anthony Wenson, chief operating officer of the Michigan Film Office, said the actual amount of credits granted was only about \$25 million so far. The annual number is impossible to reckon, he said, because plans for future projects are in flux.

In any case, Nancy Cassis, another Republican who was the only Michigan senator to oppose the incentives when they began last spring, said she expected to see them capped with bipartisan backing later this year. And she does not look for Hollywood to hang around when the money dries up.

"These are not long-term jobs," Ms. Cassis said. "If just one state offers more, they'll be out of here before you can say 'lickety-split.' "

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